

Status and prospects of Insurance regulation and supervision: prudential and conduct dimensions.

Lisbon, 1 June 2017

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I. Intro: The Context

Context: the World out there

- Political change
- Monetary policy
- Digital: Transformation vs. Disruption: opportunity vs Threat.
- Climate change: protection gap increasing; priority (political, social... Trump & tone from the top); roles.
- Sociology: do we really understand millennials?
- Demographics. Impact on Pension sustainability... and subsequent opportunity for Insurers.

Context: Insurance as a business

- The “other” Three Pillars of Insurance (as a business):
 - Risk
 - Trust
 - Service
- To what extent can the past be, quoting Lord Byron, “the best of the prophets” for the future?

Context: Regulation

- Regulation has been a Top 3 risk for executives (source: 2015 PwC Insurance Banana skins). Why? Uncertainty and change.
- Prudential regulatory pendulum has shifted... Growth as new driver.
- Conduct regulation as the new area of focus for regulators... and politicians! Conduct risk is here to stay. FSB focus, IAIS focus, Regional and local focus as well.
- Sectoral dimension has to co-exist with cross-sectoral reality.

Context: Supervision

- No silver bullet...
- ... Yet, Do they have guns?
- Do they fear/know how to best use them?

I.II. Prudential Regulation: Solvency II as living evidence

Solvency II: looking back for good (and bad)

- Proactive approach: “if it ain’t broke don’t fix it”
- Tested approach: QISs: “learning by doing”
- Consistent with regulated business (for a change?)
- Coherent with Banking regulatory model (pillars, tiers...)

- High cost for all stakeholders.
- Uncertainty... even today!
- Complexity & size (if you want it shorter, give me more time)

Solvency II: how it looks after going Life.

- Overall positive
- Has triggered change in the sector: ALM, risk management, professionalism...
- Is it leading to concentration?
- Is the sector more transparent today?
- Some achronims: SCR, LTG, PPP, IM, SFCR...
- Is it fit for today... and tomorrow? Treatment of Software as a case study.

Solvency II: fit for tomorrow?

- Different reality: new players, new demands and needs... even new clients
- Alignment (?) with ICS... and implications
- Solvency II ongoing reviews: SCR, LTG, Group supervision(?)
- Culture as the next frontier?

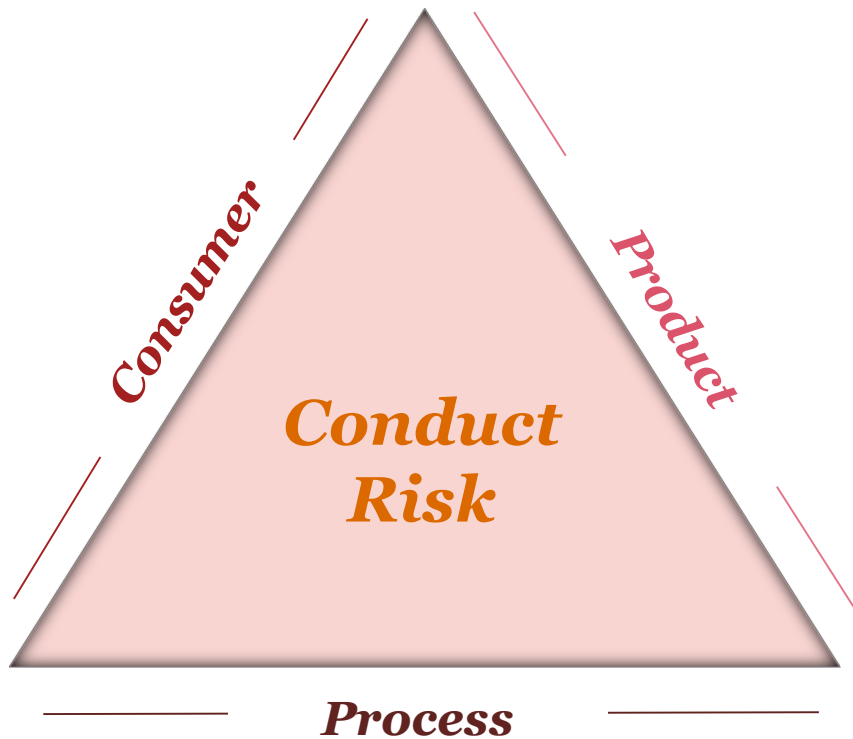
III. Conduct Regulation: IDD as upcoming test

From Conduct...

What is it?

Risks associated with the ability of an entity to produce **good results** for their clients ... and protect the integrity of the markets.

In a nutshell: to provide the right customer with the right product through the best channel.



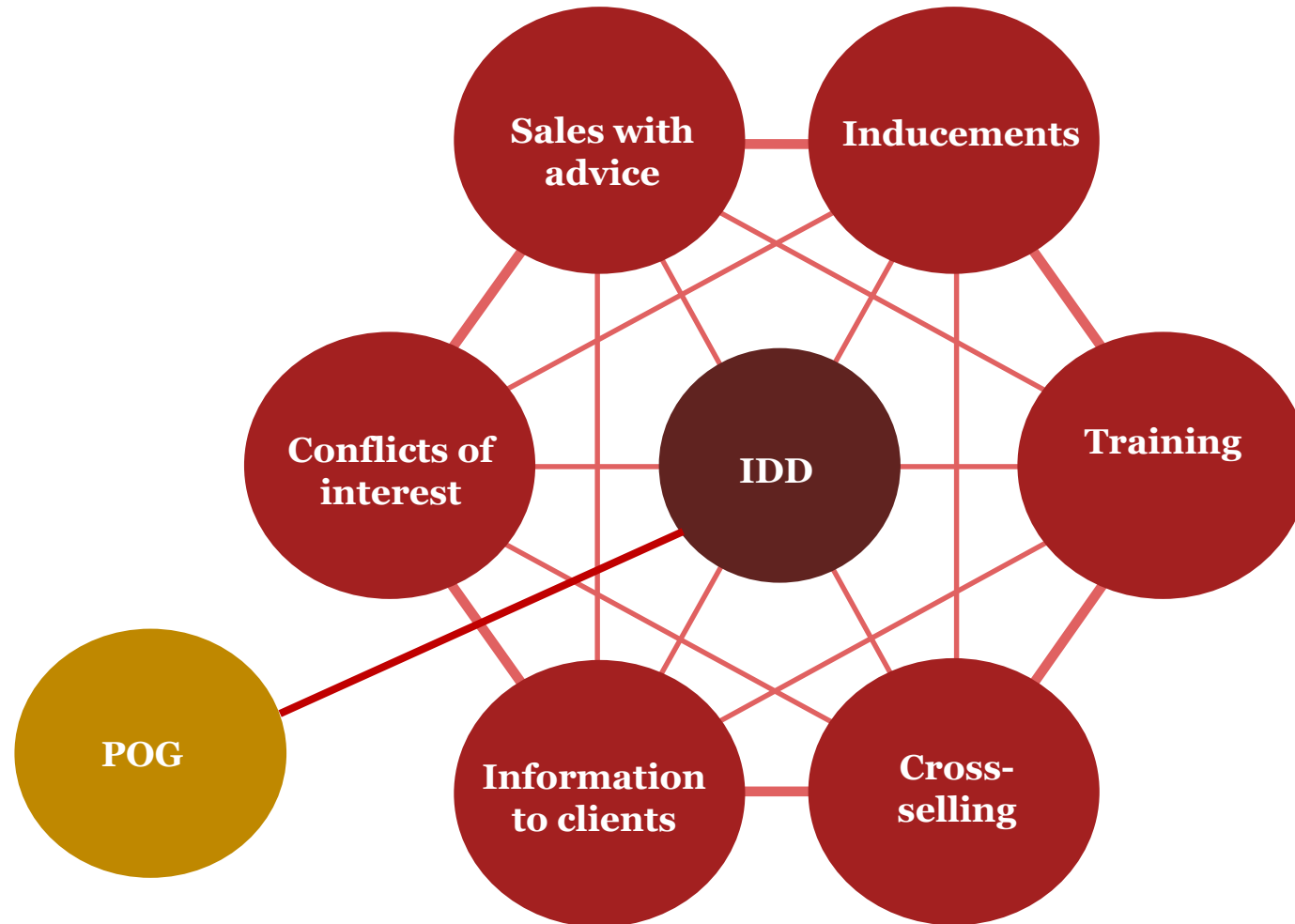
- 1. Consumer**– Identify and verify (Target Market in **POG**)
- 2. Product** – Identify and verify the best product for a given customer... (“Best interest” referred to by the **IDD**)
- 3. Processes** – Operationalize a business model that generates legitimate benefits, maintaining market integrity and reputation of the institution.

- *It may overlap with **Operational Risk**...*
- *But it has implications from a viewpoint of **Strategic Risk** **Reputational Risk** that goes far beyond that*

... *To IDD:*

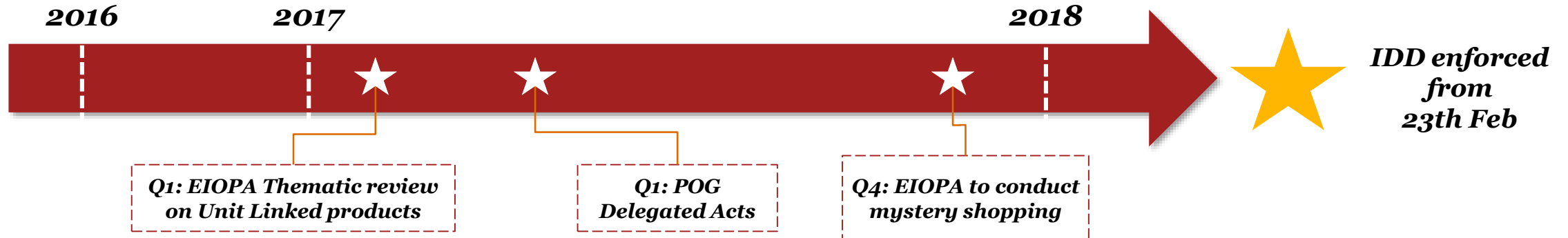
- What is it? A regulatory piece aimed at regulating How you sell products... but also What products you (can) sell, Whom and At what Price.
- Why is it important? Because it exceeds compliance and gets into business models and strategy.

... and its (many) main impacts



Why do you need to start thinking about IDD now?

Only **9 months** to prepare for IDD, with even less time to shape the way the regulator approaches implementation...



You need to be on the front foot in your response as IDD will shape the way the industry approaches customers and product design, as:

1. It articulates a formalised need to care about insurance customers

2. It reflects increasing board expectations surrounding customer centricity and accountability

3. It is evidence of regulators' continued interest in behavioural economics

4. National authorities will fine those found to be noncompliant

Acting now allows you to shape the way that regulation is implemented from here on out.

IV. Forecasting the future: best guessing and spoilers

Forecasting the future

- **Prudential regulation:**
 - Global level: IAIS debate: Will it take longer than Solvency II?
 - EU Level: Solvency II review or Solvency III?
 - Local level: How close to your own reality can you be?
- **Conduct regulation:**
 - Global level: FSB agenda, Systemic or Political risk?
 - EU Level: Will Brexit impact TCF?
 - Local level: (Spoiler)

Forecasting the future (II)

- **Cross-sectoral dimension:**
 - Does anyone really want Level Playing Field? If so, walk your talk.
 - Does one size fit all?
 - Who will tell Insurance that the best way to show differences is by starting with similarities?

V. Epilogue: Personal thoughts

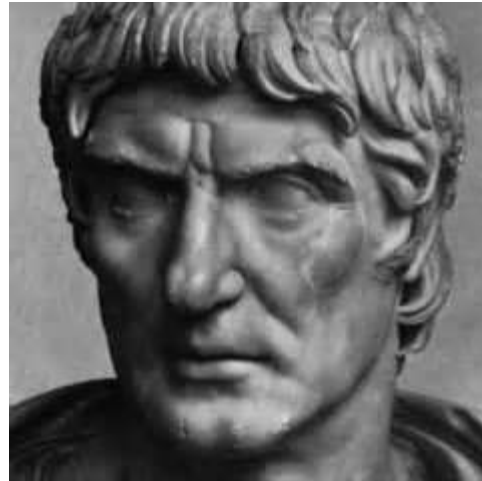
(Very) personal thoughts

- Nostradamus and the Future of Pensions
- Juvenal and the Review of the ESAs
- Oscar Wilde and 2000-2003: the FICOD years

“Day of death put for birthday”



“Quis custodiet ipsos custodes”



“Experience is the name we give to our mistakes”



Questions?

Thank you



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